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American Woman's Society of Certified Public Accountants

American Society of Women Accountants

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The Woman C. P. A.

JOINT BI-MONTHLY BULLETIN
of the American Woman's Society of Certified Public Accountants
and the American Society of Women Accountants

VOLUME 5—COPY 9

FEBRUARY 1943

The Presidents' Column

By MARY C. GILDEA, C. P. A.

In the January issue of the Journal of Accountancy there is an editorial on post-war planning which we would recommend to all our members. While we cannot draw a blueprint now of just what the post-war world will be or of what part we, as accountants, will play in it, it is certainly wise to be giving the problem serious consideration. In time of war, prepare for peace.

We are told that the Federal government is making an attempt to eliminate duplication of reports by businessmen by having a centralized agency review all forms and questionnaires sent out by the various departments, bureaus and agencies. This is very commendable, but how about the duplication of auditing by these same departments, bureaus, and agencies? Many a business man complains that his accounting department is seriously hampered by the many examinations and investigations made, with income tax audits, OPA audits, WPB examinations, Wage and Hour Division examinations, payroll audits of many kinds, and many others, including the public accountant. Why wouldn't it be possible to work out a clearing house for the information required by the various governmental agencies and not subject the same set of accounts to a great deal of duplicate auditing? There may be many hindrances and problems arising in connection with such a plan but we believe it is worthy of some thought.

By GRACE A. DIMMER, C. P. A.

Much has been said and written regarding the hard work and responsibilities of women engaged in the Public Practice of Accountancy, but only in rare instances does one hear that possibly satisfaction and enjoyment is the reward of a job well done.

The most important work done in the world is performed without regard to financial gain, and I believe that to be a good accountant it is necessary to love the work, and be able to obtain enough personal satisfaction from the practice of accountancy, that monetary considerations will take at least second place.

It is generally acknowledged that not many accountants become very wealthy, but we must admit they find something worthwhile about it when most of them are willing to burn the midnight oil whenever necessary.

The period of January 1, through March 15, each year is particularly trying and exhausting, due to the demand of business for Annual Reports and Federal Income Tax Returns. This year the problem is greater than ever with the multiplicity of government reports and the many changes in the Revenue Act of 1942.

There is a peculiar satisfaction experienced by all accountants in mastering these difficult problems, and they will be found working long hours so that a good job will be done on time.

Many women will find satisfying, pleasant work in accountancy in addition to financial security in the near future.

Truly, there is romance in figures.

Defense Bonds Are Pledges of Freedom!

The Woman C. P. A.

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Editor.....Julia G. Norse, C.P.A.
407 Peoples Nat'l Bk. Bldg., Grand Rapids, Mich.
Associate Editor.....Jane E. Goode, C. P. A.
1224 Pacific Finance Bldg., Los Angeles, Calif.
Associate Editor.....Dorothy Christy
411 N. Cloverly Drive, Temple City, California

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2446 Cleveland Ave.
Seattle, Washington.....Helen J. Maddex
215 - 13th Ave. No.

Chapter News

Spokane

The Christmas party was held at the home of Barbara Bateman on December 17th. Each member brought a donation for the Victory Shop to aid in the Bundles For Blue Jackets Drive.

Los Angeles

Mr. Russell Bock, C.P.A. discussed the changes in the Revenue Act of 1942 at the November meeting.

The Christmas party resulted in a large collection of new toys which were given to the County Hospital.

Alberta Cray discussed the individual income tax returns at the January meeting.

Indianapolis

"Personal Finance Companies" was the subject of Mr. Robert C. Hamilton, Executive Secretary, Indiana Association of Personal Finance Companies, at the January meeting.

Chicago C. P. A.

Mary Gildea lead a discussion on income taxes at the January meeting.

News from Members

Alberta R. Cray discussed the Revenue Act of 1942 before the Whittier Chapter of the Building Contractors Association of California in December.

Ruth Clark recently became treasurer of Lyon Van & Storage Co.

The Professional and Technical Press is publishing Dr. Mary E. Murphy's book, "The British War Economy 1939-1943".

Irene Briggs has become a member of the Los Angeles staff of Haskins & Sells.

Ferne Abrame recently started to work for Kinner Motors in Los Angeles.

Ann Erne Costillo is working for the Navy in Stockton.

Marjorie Chilstrom works the swing shift in the purchasing department at Lockheed.

Ivah Britton has been made assistant secretary and treasurer of the American Loan Company at Indianapolis.

Mildred Claffey has recently been promoted to supervisor of stores control, U. S. Rubber Company, at Indianapolis.

New Members

Dorothy Fallscheer
c/o Marshall-Wells Co.
Spokane, Washington

Anita Mary Hage
2351 W. 20th St.
Los Angeles, Cal.

Bernice Pemberton
1975 N. Beachwood Dr.
Los Angeles, Cal.

Fanny Rose
2831 3/4 West Blvd.
Los Angeles, Cal.

Stabilization of Salaries

By JULIA G. NORSE, C. P. A.

The present world struggle is necessitating a great deal of governmental supervision to prevent run-away inflation. The latest war-baby addition to the rapidly growing family of control acts, necessitated by the shortage of labor and the resulting labor pirating, is nick-named "stabilization of salaries."

On October 27, 1942, the President approved regulations relating to wages and salaries prescribed by the Economic Stabilization Director under the Act of October 2, 1942, entitled "An Act to amend the emergency Price Control Act of 1942, to aid in preventing inflation, and for other purposes." The Act provides in effect that salaries, so far as practicable, shall be stabilized at the levels which existed on September 15, 1942.

The regulations conferred on the Commissioner of Internal Revenue authority to administer the provisions thereof relating to the stabilization and limitation of certain salaries. The Commissioner has authority to determine whether salary payments are made in contravention of the Act on:

(1) Salary payments in excess of \$5,000 per annum, (provided for by an agreement existing prior to October 3, 1942) in the case of individuals employed in any capacity whatsoever; and

(2) Salary payments of \$5,000 or less per annum, (provided for by an agreement existing prior to October 27, 1942) in the case of individuals who are employed in bona fide executive, administrative or professional capacities, and who, in their relations with their employer, are not represented by duly recognized or certified labor organizations, and whose services are not classified as "agricultural labor."

Determination Conclusive

Any determination by the Commissioner

Julia Norse is a member of the Grand Rapids staff of Seidman & Seidman. An Illinois C.P.A., an associate member of the American Institute, former secretary-treasurer of the Chicago Chapter of the A.W.S.C.P.A., she is now serving her second year as editor of *The Woman C.P.A.*

Her interests include hiking (if she can corner you, she will tell you the harrowing details of being "lost" on Mount Grinnell in Glacier Park), flying though she hasn't soloed as yet), kodachrome photography, and reading (autobiographies preferred).

that a salary payment is in contravention of the Act is conclusive in every respect upon all executive departments and agencies of the Federal Government for the following purposes:

(1) Determining costs or expenses of an employer for the purpose of any law or regulation,

(2) Calculating deductions under the revenue laws of the United States; or

(3) Determining costs or expenses under any contract made by or on behalf of the United States.

In the case of salaries increased in contravention of the Act, or in excess of the limitations on salary, the actual amount paid or accrued to the employee is disregarded, not merely the increase or the excess over the limitations.

Any person, whether employer or employee, who wilfully violates any provision or regulation shall be subject, upon conviction, to a fine of not more than \$1,000, or to imprisonment for not more than one year, or to both such fine and imprisonment.

The determination of the Commissioner is final and not subject to review by The Tax Court of the United States or by any court in any civil proceedings. However, an employer is not denied the right to contest any provision of the regulations, on the ground such provision is not authorized by law, or any action taken or determination made under the regulations, on the ground that such action or determination is not authorized, or has not been taken or made in a manner required by law.

For income tax purposes, reasonable salaries are allowed as deductions. The tests which determine the allowability of salaries for income tax purposes are in no way suspended by the salary stabilization regulations. Accordingly, approved salaries for stabilization purposes may, nevertheless, be disallowed, in whole or in part, as deductions for income tax purposes.

Salary Increases

The Commissioner's approval is not required where an increase in salary rate is made in accordance with terms of a salary

agreement or salary rate schedule in effect on October 3, 1942 or approved thereafter by the Commissioner, and is the result of:

(1) Individual promotions or reclassifications,

(2) Individual merit increases within established salary rate ranges,

(3) Operation of an established plan of salary increases based on length of service,

(4) Increased productivity under incentive plans,

(5) Operation of a trainee system, or

(6) Such other reasons or circumstances as may be prescribed by the Commissioner's ruling or regulations from time to time.

"Salary agreement" or "salary rate schedule" may include a salary policy in effect on October 3, 1942, even though not evidenced by written contracts or written rate schedules. The existence of such policy may be determined from previous payroll records or other payroll data, but must be established to the satisfaction of the Commissioner with the burden of proof resting upon the employer. In such cases, the employer may reduce the salary policy to writing and secure approval thereof by the Commissioner.

A bonus or other form of additional compensation which does not exceed in amount the bonus or other additional compensation to such employee for the last bonus year ending before October 3, 1942 does not require approval. In addition, a bonus based upon a fixed percentage of salary where the percentage has not been changed, does not require approval even though the amount be increased due to an authorized increase in salary. Any other bonus or other form of additional compensation requires approval. Where the compensation, or part thereof, is paid on a commission basis and is based upon a fixed percentage (which has not been changed) of sales made by the employee, a payment does not require approval even though the amount may represent an increase due to increased sales by the employee.

An employer who has established a new job classification, or who has begun business after October 3, 1942, must obtain approval of the Commissioner for the payment of salaries unless the rates paid are

not in excess of those prevailing for similar job classifications within the local area. A mere change in the name, organization, or financial structure of an employer, whether it be an individual, partnership or corporation, will not in itself be sufficient for establishing a finding that a new business has been begun or a new job classification established after such change.

Payment for overtime will constitute an increase in salary rate unless it has been the customary practice to pay for overtime and the rate has not been changed.

An application for the approval of a salary increase shall be filed by the employer with the regional office of the Salary Stabilization Unit of the Bureau of Internal Revenue in whose territorial jurisdiction the main office or principal place of business of the employer is located.

Salary Decreases

The Commissioner's approval is not required for salary decreases made after October 3, 1942 when:

(1) The new salary rate does not fall below the highest salary rate existing between January 1, 1942 and September 15, 1942 for the particular work in question or for the same or comparable work in the local area.

(2) An employee has been demoted to a lower position than that filled by him between January 1, 1942 and September 15, 1942 and the salary rate for such lower position is not less than the highest salary rate existing for that position during the same period.

(3) An employee has been relieved of substantial duties and responsibilities.

A disparity between salaries paid by a particular employer and those paid by employers generally in the local area does not necessarily constitute justification for decrease in salary rates paid by such employer.

When an employee is paid a salary of more than \$5,000 per annum, the employer is permitted to make, without approval by the Commissioner, a decrease to a rate not less than \$5,000 per annum. If, however, by virtue of a decrease the new salary paid to the employee is less than \$5,000 per annum, then the decrease below \$5,000 is subject to the preceding limitations.

A decrease is permitted, with the approval of the Commissioner, in order to correct a gross inequity in any case or to aid in the effective prosecution of the war.

Salary Payments

The terms "salary" and "salary payment" are not used in any restricted, narrow or technical sense, but encompass all forms of direct or indirect compensation for personal services of an employee which is computed on a weekly, monthly, annual or other basis. Bonuses, gifts, loans, commissions, fees, additional compensation and any other remuneration in any form or medium whatsoever are considered as falling within the concept of the terms.

Retainer fees paid to an individual, not otherwise an employee, are not to be considered as salary. Fees paid to a director, who performs no services for the corporation other than those required by attendance at and participation in meetings of the board of directors, are not considered salary. Insurance and pension benefits in a reasonable amount are likewise excluded. The Commissioner is not precluded from determining, after investigation, that amounts denominated, for example, as rents or royalties are in fact salary payments subject to the regulations.

All amounts paid to, authorized to be paid to, or accrued to the amount of any employee during a calendar year for services rendered or to be rendered are to be included as salary for such year.

Limitations on Certain Salaries

In addition to setting forth limitations on increases and decreases in salary rates, the General Regulations provide a ceiling on the amount of salary which may be paid to any employee during a calendar year. The general rule is that no amount of salary may be paid or authorized to be paid to or accrued to the account of any employee or received by him during the calendar year 1943, and in each succeeding calendar year, which, after reduction by the Federal income taxes on the amount of salary, computed as below without regard to other income and without regard to deductions or credits, would exceed \$25,000.

(1) By applying to the total amount of

salary (but not including additional amounts allowable for charitable contributions, insurance premiums, fixed obligations or Federal income taxes) paid or accrued during the calendar year in question, undiminished by any deductions, the rates of taxes imposed by the Code as if such amount of salary were the net income (after the allowance of the appropriate credits) the surtax net income, and the Victory tax net income respectively; and

(2) Without further allowance of any other credits against any of such taxes.

Assuming that the 1942 rates are applicable in 1943, the basic allowance of salary for 1943 (which after reduction by the Federal income taxes would yield \$25,000) is \$67,200, and is the maximum amount which an employee would be permitted to receive provided he is not entitled to further allowances.

Such allowances, in addition to the basic allowance, will be granted if the employee can establish to the satisfaction of the Commissioner that after resorting to his other income from all sources he would be unable (without disposing of assets at a substantial financial loss resulting in undue hardship) to:

(1) maintain his customary contributions to charitable, educational or other organizations.

(2) meet premium payments on policies of life insurance in force and effect on October 3, 1942 on his life. This applies only to premium payments required to be met during the calendar year in question. No allowance is permissible for premiums which are due in future calendar years, on policies permitted to lapse after October 3, 1942 or on policies taken out after such date, even though the total annual premiums on the new policies are not in excess of the total annual premiums due on policies in effect on October 3, 1942.

(3) make required payments during his taxable year on fixed obligations acquired before October 3, 1942.

(4) meet payments of certain Federal income taxes. This allowance is permissible in order to pay Federal income taxes owed by the employee himself for any prior taxable year, but is not permissible in order to pay any Federal income tax due on the

basic allowance of salary, except as this allowance is applicable to 1942.

Exemptions

An employer employing eight or less individuals in a single business is not affected by the regulations. However, if at the time a salary increase is to take effect he has in his employe more than eight individuals in a single business, he is subject to the provisions. It is not necessary that each employee be paid a salary provided all the individuals employed receive compensation for their personal services. An employer may not temporarily reduce the number of employees or use any other improper device, for the sole purpose of claiming the exemption. An employer may be exempt notwithstanding that shortly after the effective date of a salary increase he enlarges his personnel in good faith to more than eight employees. Any further adjustment in salary will then be subject to the provisions of these regulations.

Salaries covered by the Federal Classification Act of 1923, as amended, are excluded from the operation of the regulations. Likewise, salaries, for example, of public school teachers which are paid under salary schedules fixed by a state legislature and providing for mandatory increments are excluded.

Payments for services rendered exclusively in foreign countries, payments made by nonresident foreign employers (unless paid to an employee residing in the United States) are also exempt.

It would seem rash to suggest the extent of the growth or the state of health of the new infant in the future, but it is certain that its growth will be watched with greater interest by the average person than other economic stabilization acts have been.

Help!

"A clerk from the navy department called me this morning to ask if I had mailed in the PD25A report.. 'It's an OPA,' she enlightened me, all in one breath, 'and if you come under the P. R. P. you must have received the PD25A.'—Merely a bookkeeper having alphabet trouble.

The Country Accountant

By NINA HUDSON ARNOLD, C. P. A.

Uppermost in our minds—a forced obsession—is WAR. Peculiar difficulties beset us; unbalanced production in that finished material cannot be shipped. The struggle to kindle the fire of systematic moving calls forth qualities in a share-cropper country. The single track of thought is now a triple track; labor not overworked; coping with material shortage and attending priorities; and choice between patience and policy in constructive distribution.

The constant change of events bewilders. Tim was beating rugs. Dust was flying but Tim's mind was only on finishing his beating. Mr. Brown drove his new horse around the corner which spied the rug and dust. With one leap it bounded on to the lawn, separating Tim, the rug and the dust.

Both the WPA and OPA have made moves toward a uniform accounting system. This would mean perhaps a drastic solution of the handling of 100% defense factories. Several years ago, when the letters were combined as symbols of branches, more or less uniformity resulted accountingwise. I have in mind the Toy Manufacturing Company, whose Governor, as well as President of the Toy Manufacturers' Association, succeeded in a costing that was fair and served even more than for a temporary adjustment. Every issue should be a step forward; every executive must possess a long-range concept of the demands of six months hence.

Even a matter of rentals has become a system, and in connection with a ruling affecting them:

"A Major Capital Improvement means building on a new room, putting in a bathroom where there was none before, putting in a new furnace where there was none before, or some similar improvement. Putting on a new roof, painting the outside of the house, painting,

Mrs. Arnold is a member of the American Institute of Accountants; has received a life membership from the Connecticut C.P.A. Society; is Postmaster of Haddam, Conn. She has specialized in town reports, estate accounting and has done probate indexing for several towns, which covered over twenty volumes of probate records.

papering and refinishing, or replastering the inside of the house are NOT Major Capital Improvements."

Yet for Federal Tax Returns:

"Examples of repairs include amounts expended for repainting the outside and inside of a building, mending leaks, plastering, and conditioning gutters on buildings. On the other hand, the cost of a new roof, lighting improvement in a factory, and the cost of bricking up windows to strengthen a wall are held to constitute capital expenditures."

Tim had the same arbitrary reasoning when he said, "I used a hair tonic to make my hair grow but instead it shed, and my head was as white and pure as the Drippin' Snow."

The urge for our immediate accomplishment is as extravagant as the command of one of our Scotch wives. "Hurry up, Janny. Today is Monday, tomorrow's Tuesday, next day's Wednesday and nothing's done yet."

But Janny, who did not care to understand, replied, "Oh, Mither, dinna ye fast yourself."

Two old sea-captains wandered into old Trinity Church on Wall Street, New York, when Trinity Church was for the elite. After the services had begun, a pompous, corpulent, moneyed gentleman came to his pew and stared upon these seafaring men. He reached into his vest pocket, pulled out a gold lead pencil and wrote, "I pay one thousand dollars a year for this pew," and passed the note to the bedraggled men.

They read the message. One reached into his pocket and found an old stub and scribbled, "Taint worth it!"

Women refuse to accept limitations. Of 169 towns in Connecticut, a third are represented by women. Even our Secretary of State is a woman. The ground swell of the future demands women using their needles and yarn or hoe and rake in the home, working for those at war; or, perhaps, to a larger percentage, in buildings of Industry, either at the machine or in the office. We have, without subtlety, with force and contagious sincerity established

ourselves as a necessity in the business world. Our good work is our best advertisement and appreciation may come from the least expected sources.

The rush of circumstances, the impelling force of War Industry, the crying need of production, the possibility of inflation, the priority regulations, the "work or fight" policy are "heapin' up on us"—to use the Southern vernacular.

This reminds me of a doctor who had assisted in the birth of each one of Tim's nine children but nary a dollar did Tim pay for his medical services. The doctor seemed much concerned over the tenth baby and when he finally came out into the kitchen where Tim sat warming his feet in the oven, Tim looked up, "Wa'al how'd she come?" (meaning a boy or a girl). Quick as a wink, the doctor replied, "C. O. D."

If only there were the escalator system for answering the questionnaire, rather than to have one's time seemingly wasted step by step, it would mean the saving of considerable embarrassment both to the questioner, et al. I am reminded of a circumstance the other day in which I had to ask, "Are you married?", and the farmer who had had a housekeeper for many years and had named her as a partner in business, replied, "I told you I had a partner, and she's a nice lady." I left the question unanswered.

The doctors are advising a reconstructive shot containing iron and arsenic. The present "Relief Provisions" are not unlike. The average base period is the iron but the result is arsenic; one to build, the other to kill. It's like Mrs. B. handing me a \$20 bill to buy a postcard.

The close of the Fiscal year for most clients is upon us and the responsibility of the C. P. A. is great. When all the Returns, with attending data, audits and affidavits are finished we may feel like Epaphroditas who went to the Post Office and handed a letter and a postage stamp to the Postmaster, saying: "Can you make that stamp stick? Both Mary Ann and I have licked it but it don't do no good."

Early History of Accounting

By OLGA PANOS

Have you ever wondered how accounting came into being? Let us delve into the past and see.

One thousand years before Christ we find a firm of bankers, Egibi and Sons in the land of Babylon. This firm caters to officials, private investors and even the King of Babylon. It collects taxes, changes money and issues bills of exchange. The employees are busily making entries of the day's transactions on clay tablets.

Over at the temple, we find the scribes, the chief accounting officers, recording receipts and disbursements of all property coming into the temple. The scribes are well educated in the four R's—reading 'ritin', 'rithmetic and record keeping. Many a scribe paid for a major mistake with his life.

Leaving Babylon and advancing about ten centuries to the merry land of England, we find Henry I conferring with his council about a new type of annual accounting record called the Pipe Roll, so called because it resembles a tubular pipe when it is rolled up. This record, compiled on sheepskin, states the taxes, debts and other liabilities due to the crown. A generation later, Henry II created a separate department called the Exchequer for the purpose of keeping accurate records of the royal revenues.

For complete records of double entry bookkeeping we must go to Genoa, Italy. About the first decade of the fifteenth century we find Soranzo and Brothers keeping ledgers and also such accounts as "Profit and Loss" and "Capital."

Also in Italy, about the time Columbus discovered America, we find Frater Luca Pacioli who wrote the first important book on double-entry bookkeeping. According to this book, three major account books were kept: the memorandum, the journal and the ledger. In the memorandum were kept all the transactions of the merchant, hour by hour and day by day. These were transferred into the second book called the journal in which all the debits were pre-

ceded by the word "per" followed by two horizontal lines and then the word "a" followed by the credit. For example, if Pacioli received cash, the transaction would be records as follows: Per Cash—A Capital of myself. I have so many ducats in my possession of such and such.

Entries were transferred from the journal to the ledger very much like our method today.

Frater Pacioli, a Franciscan monk, seems to have been a philosopher as well as an author. "Who does nothing makes no mistakes; who makes no mistakes learns nothing" was his favorite expression. "Accounts are nothing else than the expression in writing of the arrangement of his affairs which the merchant keeps in his mind" is Frater Pacioli's definition that in history. Admission was difficult; only persons of outstanding talent and integrity were accepted as members.

Contrary to general opinion, accounting is old—not new.

Old Bulletin Copies

A notable New York collector of accounting memorabilia is interested in completing his file of *The Woman C. P. A.* which starts with Vol. 5, Copy 2. If any members have duplicates or are no longer interested in keeping their back copies, your editor will be pleased to forward them.

Nothing New Under the Sun!

I hold every man a debtor to his profession; from that which as men, of course, do seek to receive countenance and profit so ought they of duty to endeavor themselves by way of amends to be a help and ornament thereunto.

—Francis Bacon (1561-1626)

Address Change

Esther S. (Mrs. H. S. Green)
6200 Kenmore Ave.,
Chicago, Illinois

Corporate vs. Partnership Tax Liability Under the Revenue Act of 1942

By VALERIE JOHNSTON YUDELL, C. P. A.

While the writer would not attempt to cheat the United States Government out of its just share of corporate income, she was curious to know how much greater were the taxes of the following close corporation over what they would have been if the business had been carried on as a partnership.

A, B, and C each owned 33⅓% of the outstanding stock of the D Corporation. Each was married, none had dependents, and none had income from any other source. In 1942, the D Corporation earned \$90,000 entirely from its own operations after paying each of the three officers (A, B, and C) a salary of \$10,000. It had an excess profits tax credit of \$45,000, and paid dividends of \$18,000. Its tax liability is computed as follows:

TAX	
Net Income	\$90,000
Less: Excess Profits	
Credit	\$45,000
Specific Exemption	5,000
<hr/>	
Total Deduction	50,000
Excess profits tax base.....	\$40,000 \$36,000
Net Income	\$90,000
Less: Excess profits	
tax base	40,000
Normal tax & surtax base....	50,000
Normal tax at 24%	12,000
Surtax at 16%	8,000
<hr/>	
Total Tax Liability of	
D Corporation	\$56,000
<hr/>	
Tax Liability of each shareholder of D Corporation:	

TAX	
Salary	\$10,000
Share of \$18,000 dividends	

Mrs. Yudell is a Chicagoan; graduated from Northwestern University in June 1941 where she was elected to Delta Mu Delta, honorary commerce society, and was winner of the Phi Gamma Nu prize, given to the woman with the highest average in the graduate class. She is a member of the Illinois Society of C.P.A.'s and is employed by Levinson, Becker, Peebles, and Swiren.

paid	6,000
Net Income	\$16,000
Personal Exemption	1,200
<hr/>	
Surtax Net Income.....	\$14,800 \$ 3,500
Earned Income Credit	
(10% of \$10,000)	1,000
<hr/>	
Normal Tax Net Income.....	\$13,800 828
<hr/>	
Tax liability of each share- holder-officer	\$ 4,328
<hr/>	
Total Tax liability of A, B, and C	\$12,984
<hr/>	
Combined tax liability of D Corporation and its three shareholder-officers	\$68,984
<hr/>	

If the business had been carried on as a partnership, the tax liability of each partner is computed as follows:

TAX	
Net business in- come	\$90,000
Add back officers	
salaries	30,000
<hr/>	
Partnership Net In- come	\$120,000
<hr/>	
Proportionate share of each partner....	\$ 40,000
Personal exemption	1,200
<hr/>	
Surtax Net Income..	\$ 38,800 \$16,288
Earned Income Credit	
(10% of 20% of \$40,000)	800
<hr/>	
Normal Tax Net In- come	\$ 38,000 2,280
<hr/>	
Tax liability of each partner	\$18,568
<hr/>	
Total tax liability of all three partners	\$55,704
<hr/>	
Tax Saving under partnership form	\$13,280
<hr/>	

The Victory Tax

By RUTH A. CLARK, C. P. A.

The 1942 Revenue Act provides, in addition to increased normal and surtaxes, a 5% Victory Tax on the 1943 income of individuals. The tax is levied on the "Victory Tax Net Income". This is substantially the same as "Normal Tax Net Income" except that it does not include income from capital gains and from certain government bonds. However, if a taxpayer files his return on the simplified form, his "Victory Tax Net Income" is his "Gross Income."

The law also provides that the combined normal, surtax and victory taxes cannot exceed 90% of the taxpayer's net income for the taxable year. Unless extended, the Victory tax will expire at the close of the war.

A specific exemption of \$624 a year will be allowed every individual and is deductible from the Victory Tax Net Income before the 5% rate is applicable. If the Victory tax net income is less than \$624, the taxpayer is exempt from the tax. In the case of husband and wife, each is entitled to an exemption of \$624 per year, providing each has a Victory tax net income in excess of \$624. If a joint return is filed and the Victory tax net income of one spouse is less than \$624, then they would be entitled to an exemption of \$624 plus the Victory Tax Net Income of the spouse which is under \$624.

A Post-War Credit or Refund of a portion of the Victory Tax is provided in the following manner:

- (a) Single Person—25% of tax or \$500 whichever is the lesser.
- (b) Head of a family or Married person—40% of tax or \$1000 whichever is the lesser.
- (c) Each dependent—2% of tax or \$100 whichever is the lesser.

If the status of the taxpayer is changed during the year, the Post-War Credit or Refund will be adjusted according to the

number of months before and after the change. If the taxpayer computes his tax on the simplified form, his status is determined as of July 1st of each year.

Under certain conditions, credit for a portion of the Victory Tax in an amount not exceeding the Post-War Credit may be taken by the taxpayer when filing his income tax return in 1944. The amount of the credit to be used currently would be based on the following:

- (a) Amount of increase in certain War Bond holdings during taxable year.
- (b) Amount of payments on life insurance premiums providing policy was in force on September 1, 1942 and the insurance is on the life of the taxpayer, his spouse or dependents.
- (c) Amount of decrease in indebtedness during taxable year providing contracted prior to September 1, 1942.

Current credits are not in addition to the Post-War Credits but are used to reduce or eliminate them.

Included in the Act, is a provision whereby employers, starting January 1, 1943, must withhold 5% of amounts paid to employees in excess of certain withholding deductions. The amounts withheld must be paid to the government within thirty days after the close of each quarter.

While certain classes of wage and salary payments are exempt from the withholding provisions, they are not exempt from the tax.

All individuals with "Victory Tax Net Incomes" in excess of \$624 during the taxable year must file returns on or before March 15th of each year. The amounts withheld by the employer are applied against the Victory Tax due. If there is any overpayment, it is applied against the normal and surtax payable. If the taxpayer is not subject to the normal and surtax, then he is entitled to a refund of any payment.

Individuals whose tax has not been withheld, will nevertheless file a return on or before March 15th of each year and pay the entire Victory Tax when they pay their normal and surtax.

Ruth Clark is treasurer of the Lyon Van & Storage Co., member of the California Society of C.P.A.'s; president of the Los Angeles Chapter A.S.W.A.; member of the Hollywood Business and Professional Women's Club. A native of Greensburg, Penn., she enjoys a wide variety of activities but has no special hobbies.

Renegotiation of Contracts

By WILLA MAE LEWIS

Foremost in the highlights of today's drama of war stand the defense industries. As American citizens with every vital effort we have directed toward the creation of war goods and supplies that will win this terrible war, we are interested in the defense industries, what they are doing, and how they are doing it. These industries have government contracts, and are the source of the materials we so desperately need. Are these contracts being filled promptly and efficiently with the least cost to the Government and the taxpayer? What can the accountant do to supply the Government and the defense industries with accurate, up-to-date information? What legislation is being enacted to aid both the defense industries and the Government in securing the best possible information in regard to the least, fair cost to produce the best war materials?

One of the most important and far reaching Acts of legislation affecting the defense industries today is the Sixth Supplemental National Defense Appropriation Act of which section 403 pertains to renegotiation of contracts or control of war profits. The Act was signed by the President on April 28, 1942, and has subsequently been amended by Section 801, Title VIII, of the Revenue Act of 1942. Section 403 outlines methods of controlling the prices and profits of war industries and indirectly establishes the responsibilities of accountants in connection therewith.

Although excessive profits may be realized on government contracts, these profits are rarely premeditated, but rather are the result of the rapidly increasing volume of production, the large number of contracts, and the lack of accurate information as to costs at the time of establishing the contracts. There should then be some way for renegotiation of these contracts at a later date when costs may be more accurately determined. This is what the Public Law 528 seeks to do.

Willia Mae Lewis is a June, 1942, graduate of the College of Commerce and Business Administration of the University of Southern California, Magna Cum Laude. She is now working for the North American Aviation Company. She and her husband are aviation enthusiasts.

Under the Act the Secretaries of the War and Navy Departments and the Maritime Commission are authorized and directed to insert in any contract in excess of \$100,000.00 made after April 28, 1942, provisions for: (1) renegotiation of the contract price at a period when profits can be determined with reasonable accuracy, (2) retention by or repayment to the United States of any portion of the contract price which represents excessive or exorbitant profits, and (3) requiring a contractor to insert the above provisions in each subcontract in excess of \$100,000.00. Renegotiation may also apply to contracts and subcontracts entered into prior to April 28, 1942, upon which final payment was not made prior to that date. Renegotiation is defined in the Act to include the refixing by the Secretary of the Department of the contract price, thus imposing upon the War Department, the Navy Department, and the Maritime Commission the duty of eliminating excessive profits from war contracts through the process of renegotiating contracts whenever, in the opinion of the Secretary of the Department, such profits have been or are likely to be realized.

Thus we have several ways of renegotiating contracts: the contract price may be reduced or the terms revised; amounts due the contractor or subcontractor may be reduced or the terms revised; amounts due United States Government to the contractor or subcontractor may be recovered; or any combination of the above may be effected. Any one of these will demand detailed investigation into the costs and production methods of the defense industries which are parties to government contracts and are affected by the above law.

Further provisions of the Act stipulate that no allowance is to be made for (1) salaries, bonuses, or other compensation in excess of a reasonable amount, (2) excessive reserves set up by a contractor or subcontractor, or (3) any costs which are excessive or unreasonable. At the same time Congress did not set up standards by which the reasonableness of profits or costs may be measured, but the Treasury Decision

5000, entitled, "Explanation of Principles for Determination of Costs under Government Contracts," issued by the War and Navy Departments would seem to be an excellent guide in determining the admissibility of costs, especially since the Treasury Decision has been the basis by which Procurement Officers previously reviewed contracts.

The Secretaries of the Departments also have the right to demand statements of actual costs of production and such other financial statements at such times and in such form and detail as they may require, and any person who wilfully fails or refuses to furnish such information or who knowingly furnishes false or misleading statements is subject to penal offense (A fine not in excess of \$10,000.00 or imprisonment not in excess of 2 years or both). To avoid further duplication of statements and factual data, the renegotiation boards will use such information as already has been obtained by one or more of the Government agencies, i.e. Office of Price Administration, Bureau of Internal Revenue.

Using all information at hand and future estimates from the company, the Departments will study the company's net earnings for a period of years to establish whether or not the profits are fair or excessive. The main criteria, however, is the procurement of essential war materials for the Government at reasonable prices with an appropriate allowance of a reasonable profit to the contractor or subcontractor.

The Revenue Act of 1942 fixes a time limit for renegotiation to protect the companies subject to this law by stating that within one year after the filing of financial statements and such other information as may be prescribed, the Secretary of a Department may give the contractor written notice that the profits are excessive and may fix the date and place for an initial conference to be held within sixty days. If this notice is not given or the conference does not take place within sixty days, the contractor shall not be required to renegotiate to eliminate excessive profits realized from any contract during such fiscal year or years and any liability for these excessive profits shall be discharged. Further, no renegotiation of contract prices shall

begin more than one year after the close of the fiscal year within which the contract is completed or terminated.

However, we must consider that the intent of Congress was not to hinder production of war materials for the sake of eliminating excessive profits of defense industries; therefore, rather than review individual contracts, the Government will probably review the entire Government business of a company for a specified period to determine in general whether or not the company is making more than a reasonable amount of profit. Furthermore, merits of individual companies will be given some consideration; for instance, a company which is rapidly increasing their volume of production, reducing their costs, inventing new techniques, developing new production methods, improving management and supervision, or cooperating in any way with the Government and the war effort will be fairly dealt with at the time the contract is renegotiated.

The duties and responsibilities of the accountant in connection with renegotiation are many. Mainly the accountant must be reasonably certain that he produces financial statements and actual cost data that are reliable, so that renegotiation of contracts may be effected between the Government and the company in the fairest manner. He must be able to ascertain which costs are reasonable and which excessive and how they should be applied to the contracts under question. He must be alert to all possible methods of eliminating unnecessary production costs and procedures. He must see that the books of the company are kept in accordance with generally accepted accounting principles. In general he must be able to interpret every phase of Public Law 528 as it affects the defense industries, promoting renegotiation by producing that which is the basis of sound business: FACTS.

Tax Department.

After hearing the Ruml plan explained, a business man suggested a better, simplified plan. The tax return would be short:

- (a) Earnings last year
- (b) How much do you have left?
- (c) Send (b)

Lest You Regret, Get Defense Bonds